Commentary on the

Public Sector Finances: September 2019

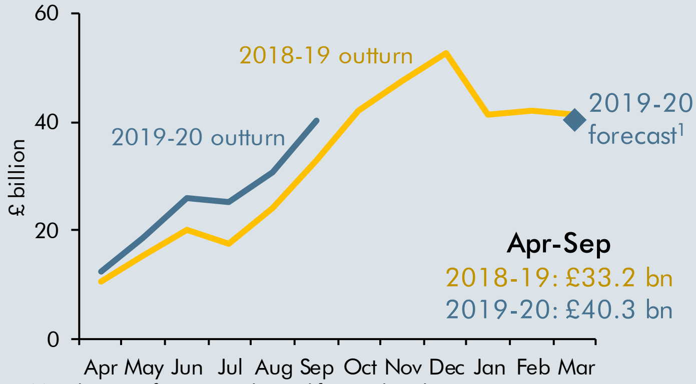
Office for Budget Responsibility

22 October 2019

Borrowing up £7.2 billion in first half of 2019-20

Mid-way through 2019-20, borrowing is up £7.2 billion on the same point last year, with strong growth in public spending outweighing more modest growth in receipts. Prospects for full-year borrowing will depend on the extent to which spending growth slows – as seems likely – and whether receipts growth is maintained – which depends in part on whether recent strength in average earnings growth continues.

Cumulative public sector net borrowing



[1] March 2019 forecast adjusted for student loan estimate

Headlines

- **Public sector net borrowing (PSNB)** is estimated at £9.4 billion in September, £0.6 billion higher than a year earlier. It has risen in five out of six months so far in 2019-20.
- **Year-to-date borrowing** was up £7.2 billion (21.6 per cent) on the same period last year. In our March forecast (including our estimate at the time of the student loans methodology change), we assumed a £7.2 billion (21.8 per cent) rise in borrowing for 2019-20 as a whole. Stronger than expected spending growth is driving the faster rise in the deficit.
- **Central government receipts** (excluding PSNB-neutral transfers related to 'quantitative easing') were up 6.9 per cent in September. Year-to-date receipts growth of 3.6 per cent is above our March forecast of a 2.6 per cent rise in 2019-20 (on a like-for-like basis).
- **Central government spending** (excluding PSNB-neutral grants to local authorities) was up 7.4 per cent in September and 5.4 per cent for the year to date, well above our March forecast of a 3.3 per cent rise in 2019-20 (on a like-for-like basis).
- **Net debt** was 1.2 per cent of GDP lower in September 2019 than a year earlier.

Full commentary

1. The Office for National Statistics and HM Treasury published their Statistical Bulletin on the September 2019 Public Sector Finances this morning, covering the first half of the 2019-20 fiscal year.[1] Each month the OBR provides a brief analysis of the data and a comparison with our most recent forecast, currently the March 2019 *Economic and fiscal outlook* (*EFO*).

2. Our next forecast will be published alongside the Chancellor's Budget on 6 November and it will largely be based on today's data, plus some administrative receipts data for October.

3. Substantial classification and other statistical changes incorporated into last month's release make like-for-like comparisons of our March forecast with the latest outturn difficult. Overall borrowing in 2018-19 was revised up by £17.8 billion. As with last month's commentary, we compare borrowing outturns on the new basis with a restated version of our March forecast using estimates of the student loans change presented in that *EFO*. These underestimated the upward revision to borrowing in 2018-19 by £1.9 billion, largely due to the treatment of student loan sales, which we could not anticipate at the time. Elsewhere we have concentrated on year-on-year changes, which should be less affected by the various statistical changes.

Public sector net borrowing

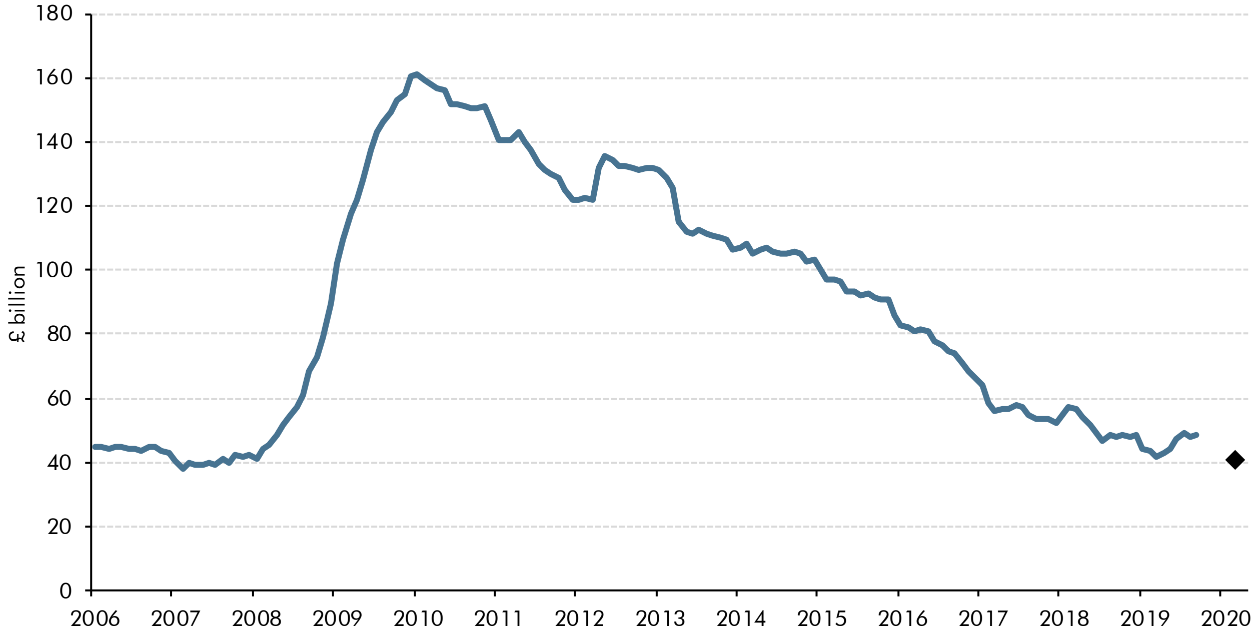
4. Public sector net borrowing (PSNB) was £9.4 billion in September, £0.6 billion higher than last year but £0.3 billion lower than market expectations. The £4.4 billion (6.7 per cent) rise in central government (CG) spending exceeded the £4.0 billion (6.9 per cent) rise in CG receipts. Borrowing by local authorities was £0.2 billion higher than last year while borrowing by public corporations was £0.1 billion lower.

5. In the first half of 2019-20, the deficit is up £7.2 billion (21.6 per cent) on the first half of 2018-19. Our restated March forecast was for a £7.2 billion *full-year* rise in borrowing in 2019-20, so meeting that forecast would require borrowing to match last year's over the second half of the year. We expected borrowing to rise this year as a result of slower growth in receipts due to the Budget 2018 policies raising the income tax personal allowance and higher rate threshold, and temporarily raising the annual investment allowance to £1 million, and slower growth in the main tax bases in 2019. In addition, CG spending was expected to rise faster than in 2018-19, particularly DEL spending on public services thanks to additional resources for the NHS. But as described below the pace of CG spending growth in the first half of the year has outstripped the pick-up we assumed in our full-year forecast.

6. Chart 1.1 shows outturn PSNB on a 12-month rolling basis. Borrowing over the 12 months to September 2019 already exceeds our restated full-year forecast for 2019-20. It seems likely that the unwinding of various timing effects in the second half of the year will leave full-year borrowing lower than a simple extrapolation of the year-to-date rise – notably the backloaded profile of spending in 2018-19 that provides the base for year-on-year comparisons – but there is considerable uncertainty around such a judgement.

[1] https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/bulletins/publicsectorfinances/september2019

Chart 1.1: Public sector net borrowing: rolling 12-month total



Source: ONS, OBR

Central government receipts

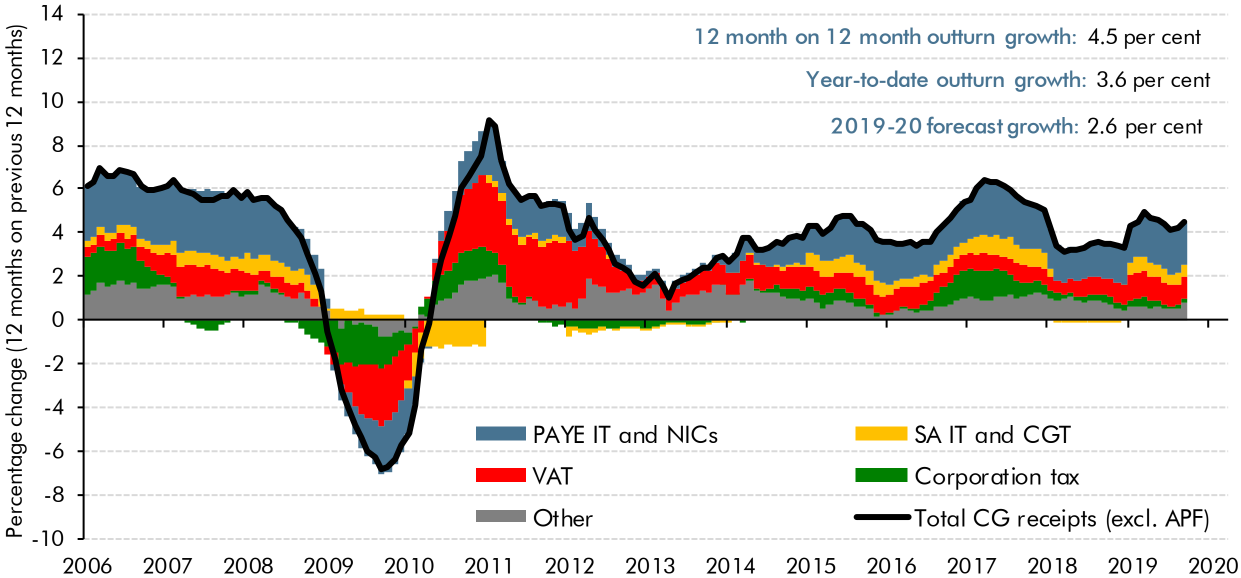
7. Relative to last year, CG receipts (excluding APF transfers) were up 6.9 per cent in September and up 3.6 per cent in the first half of 2019-20, higher than our 2.6 per cent forecast for 2019-20 as a whole. Receipts growth in September mainly reflected rises in PAYE income tax and National Insurance contributions (NICs), VAT and interest and dividends (the latter being boosted by a £1.1 billion RBS special dividend payment on the Government's shareholding).

8. For the year to date, growth of 4.0 per cent in PAYE income tax and NICs receipts outpaces our full-year forecast for 2019-20 of 2.2 per cent. This is likely to reflect the strength of earnings growth in recent months. Overall year-to-date receipts growth has also benefited from the £1.8 billion of RBS special dividends received so far this year, which exceeds the £1.0 billion we forecast for the year as a whole.

9. In contrast to these positives, year-to-date growth in several smaller tax streams has been weaker than our full-year forecasts for them, with falls in fuel duty, tobacco duty, stamp duty land tax and inheritance tax. Stamp duty is down 5.0 per cent so far this year thanks to the slowing housing market. Inheritance tax is down 11.3 per cent, probably due to some payments having been brought forward to March to avoid the sharp rise in probate fees for high-value estates that was slated to take effect in April, but was subsequently delayed.

10. Chart 1.2 shows the rolling 12-month average growth in CG receipts. On this metric, growth is currently being boosted by January 2019 SA receipts. We would expect it to slow towards the year-to-date and forecast growth rates as 2019-20 progresses.

Chart 1.2: Growth in central government receipts: rolling 12-month average



We have adjusted these figures for differences between our forecasts and ONS outturns that stem from classification decisions the ONS has taken but not yet implemented. Full details are available in a supplementary table on our website.
Source: ONS, OBR

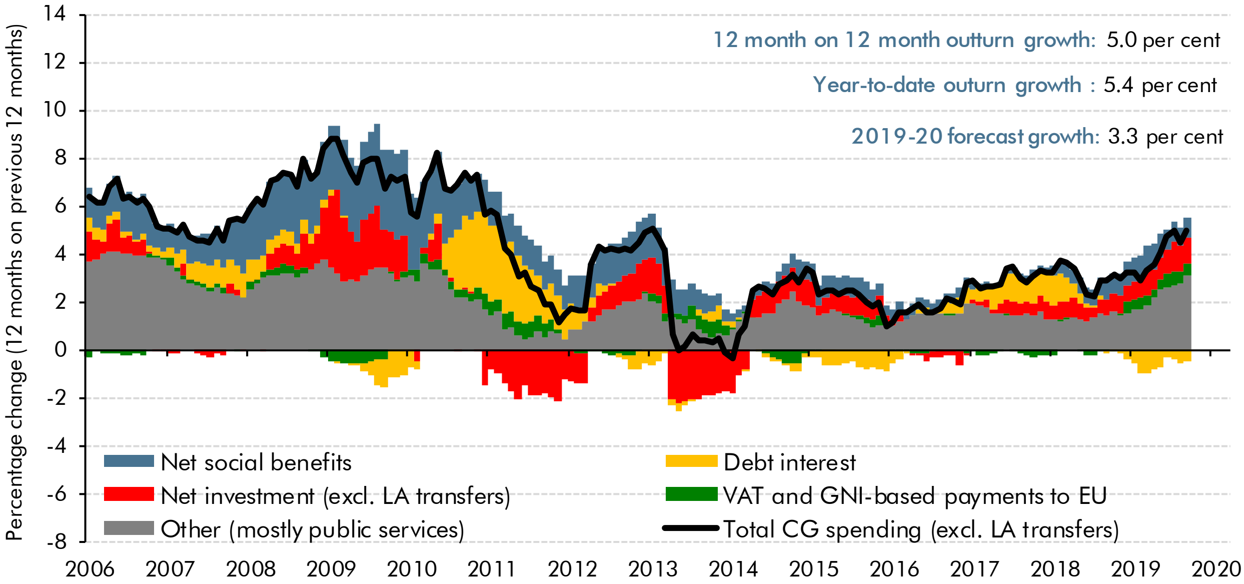
Central government spending

11. Relative to last year, total CG spending (excluding grants to local authorities) was up 7.4 per cent in September and up 5.4 per cent for the year to date, well above our March forecast for growth over 2019-20 as a whole. The £4.1 billion rise in CG spending on this basis in September was largely explained by a £2.8 billion rise in other CG current spending (mostly spending on public services). This was partly offset by a £0.5 billion drop in debt interest.

12. Other CG current expenditure has risen faster than overall CG spending throughout the first half of 2019-10 and is up 8.1 per cent on last year. Several factors contribute to this strength, including the more generous NHS settlement and the large rise in employer contribution rates for public service pension schemes (raising staff costs). It also appears that spending in 2018-19 was somewhat more backloaded than usual, which means that spending in the first half of 2019-20 is being compared with a somewhat subdued first half of 2018-19. For full-year spending in this category to match our March forecast of 5.3 per cent, year-on-year growth would need to fall back to under 3.0 per cent in the second half of 2019-20 (absent data revisions to 2018-19 or the first half of 2019-20). Given how rare it is for departments to overspend the limits set for them by the Treasury and voted by Parliament, slower growth in the second half of the year seems likely, though the extent of any slowing is clearly very uncertain.

13. Chart 1.3 shows CG spending growth on a 12-month rolling basis. If the momentum in spending growth shown on this metric and in the year-to-date position were to persist, full-year spending would exceed our forecast by a significant margin. But some slowing seems likely.

Chart 1.3: Growth in central government spending: rolling 12-month average



We have adjusted these figures for differences between our forecasts and ONS outturns that stem from classification decisions the ONS has taken but not yet implemented. Full details are available in a supplementary table on our website.
Source: ONS, OBR

Debt

Public sector net debt (PSND) in September 2019 was down 1.2 per cent of GDP from a year earlier. Around 0.5 percentage points of this drop is explained by the £4.9 billion sale of Bradford and Bingley mortgages by UK Asset Resolution (UKAR) in April and £6.8 billion in early repayments of Term Funding Scheme (TFS) loans since the start of the financial year. The UKAR sale was part of the £16.4 billion of financial asset sales expected during 2019-20 in our March forecast, but we did not assume that any further TFS loans would be repaid early.